

Message Text

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ACTION AF-18

INFO OCT-01 ISO-00 SPC-03 AID-20 EB-11 NSC-07 RSC-01

CIEP-02 TRSE-00 SS-20 STR-08 OMB-01 CEA-02 L-03 H-03

PA-04 PRS-01 USIA-15 CIAE-00 COME-00 FRB-02 INR-10

NSAE-00 XMB-07 OPIC-12 LAB-06 SIL-01 IGA-02 INT-08

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TAGS: EAID, ECON, EFIN, EIND, ENRG, ETRD, KE

SUBJECT: KENYA ANNOUNCES ECONOMIC RESTRAINT PROGRAM

SUMMARY: ON MARCH 14, GOK ANNOUNCED SERIES OF MEASURES IT TAKING TO IMPROVE INCREASINGLY SERIOUS BALANCE OF PAYMENTS OUTLOOK AND TO FIGHT HIGH DOMESTIC INFLATION RATE. THESE MEASURES INCLUDE (A) PROGRAM TO REDUCE LEVEL OF CONSUMPTION OF PETROLEUM PRODUCTS, (B) BAN ON IMPORTATION OF LUXURY GOODS AND HARSHER IMPORT CONTROLS ON OTHER GOODS, (C) BAN ON EXPORT OF FOOD AND OTHER CONSUMER SUPPLIES IN SHORT SUPPLY, INCLUDING BAN OF NEW BEEF EXPORT CONTRACTS UNTIL FURTHER NOTICE, (D) POSITIVE STEPS TO INCREASE DOMESTIC FOOD PRODUCTION, AND (E) CONTINUED PRICE CONTROL. GOVERNMENT ALSO ANNOUNCED INTENTION TO APPROACH THE IMF FOR BALANCE OF PAYMENTS ASSISTANCE IN FORM OF TEMPORARY LOAN AND ITS INTENTION TO SEEK PROGRAM LOAN FROM THE IBRD. END SUMMARY.

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1. ON MARCH 12, 1974. MINISTER FINANCE AND PLANNING

KIBAKI PRESENTED DEVELOPMENT PLAN 1974 - 1978 TO KENYAN PARLIAMENT. TWO DAYS LATER KIBAKI RETURNED TO PARLIAMENT TO ANNOUNCE - TO NO ONE'S SURPRISE - THAT MANY OF PROJECTIONS MADE IN PLAN WERE BEING REVIEWED TO TAKE INTO ACCOUNT "WORLD ECONOMIC PROBLEMS CONSEQUENT TO PETROLEUM PRICE INCREASES." FOR KENYA, THESE PROBLEMS WILL MEAN INCREASED DOMESTIC INFLATION, REDUCED GOVERNMENT REVENUE, AND DETERIORATION OF BALANCE OF PAYMENTS POSITIONGM

2. INITIAL GOK PROJECTIONS INDICATE THAT KENYA HAD A BALANCE OF PAYMENTS SURPLUS OF \$28 MILLION DURING 1973. BASED ON PRESENT PRICE TRENDS, GOK NOW PROJECTING \$85 MILLION PAYMENTS DEFICIT IN 1974. THIS PROJECTION ASSUMES CONTINUED RAPID INCREASE IN KENYA'S EXPORTS, FROM \$340 MILLION IN 1973 TO \$460 MILLION IN 1974, BUT EVEN FASTER INCREASE IN COUNTRY'S IMPORT BILL, FROM \$570 MILLION IN 1973 TO \$820 MILLION IN 1974. WELL OVER HALF OF THE INCREASE IN KENYA'S DEFICIT DIRECTLY DUE INCREASED PETROLEUM PRICES. TOTAL 1974 TRADE DEFICIT PROJECTED AT \$360 MILLION UNLESS ACTION TAKEN NOW.

3. FACED WITH BALANCE OF PAYMENT PROBLEM AND DOMESTIC INFLATION RATE NOW APPROACHING 15 PERCENT, MINISTER KIBAKI ANNOUNCED A SERIES OF STEPS GOVERNMENT INTENDS TO TAKE EVEN BEFORE COMPLETE REVIEW OF THE DEVELOPMENT PLAN IS COMPLETED. THESE MEASURES INCLUDE:

(A) OIL: PROJECTED OIL IMPORT BILL FOR 1974 IS \$185 MILLION, INCREASE OF \$125 MILLION OVER 1973 IMPORTS. TO REDUCE PROJECTED FOREIGN EXCHANGE OUTFLOW, GOK PLANNING MEASURES TO LIMIT LEVEL OF CONSUMPTION OF OIL PRODUCTS.

(B) NON-OIL IMPORTS: IMPORTS OF LUXURY CONSUMER GOODS WILL BE BANNED AND OTHER ITEMS NOW SUBJECT TO IMPORT QUOTA WILL BE CUT BACK TO REDUCE OVERALL IMPORT BILL.

(C) EXPORT BAN: TO CONSERVE FOOD SUPPLIES WITHIN COUNTRY AND THEREBY RELIEVE PRICE PRESSURES, IMMEDIATE BAN HAS BEEN IMPOSED ON EXPORTS OF FOOD AND OTHER CONSUMER ITEMS IN SHORT SUPPLY. KENYA MEAT COMMISSION

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WHICH HANDLES KENYA'S BEEF EXPORTS, HAS BEEN DIRECTED NOT TO ENTER INTO NEW EXPORT CONTRACTS UNTIL FURTHER NOTICE.

(D) FOOD PRODUCTION: THE GOVERNMENT WILL TAKE POSITIVE STEPS TO INCREASE FOOD PRODUCTION WITHIN KENYA. IN PARTICULAR INCREASED PRODUCTION OF WHEAT AND SUGAR WILL BE PUSHED. 1973 IMPORTS OF WHEAT AND SUGAR COST KENYA \$10 MILLION AND \$19 MILLION RESPECTIVELY.

(E) PRICE CONTROLS: DURING 1973, PRICE CONTROLS WERE EXPANDED TO COVER MOST ESSENTIAL CONSUMER ITEMS. THESE CONTROLS WILL BE CONTINUED FOR FORESEEABLE FUTURE AND EXCESS PROFITS TAX WILL BE INTRODUCED IF NECESSARY TO PREVENT EMPLOYERS AND OTHERS FROM PROFITING FROM CONTINUATION OF GENERAL WAGE RESTRAINTS.

4. AS IMPORT RESTRICTIONS OUTLINED ABOVE WILL NOT BE SUFFICIENT TO PREVENT CONTINUED DROP FOREIGN EXCHANGE RESERVES IN SHORT TERM, GOK PLANS TO APPROACH IMF FOR BALANCE OF PAYMENTS ASSISTANCE OVER NEXT YEAR. ACCORDING GOK, THIS ASSISTANCE WOULD TAKE FORM OF TEMPORARY LOAN WHICH WOULD BE REPAID AS SOON AS KENYA'S FOREIGN EXCHANGE POSITION IMPROVES. IT HAS LONG BEEN KENYAN POLICY TO MAINTAIN FOREIGN EXCHANGE RESERVES EQUAL TO AT LEAST VALUE OF THREE MONTHS IMPORTS; AS RESERVES IN JANUARY WERE \$207 MILLION, GOK EXPECTS THREE-MONTH IMPORT LEVEL TO BE BREACHED WITHIN FEW MONTHS WITHOUT OUTSIDE ASSISTANCE. AS KENYA HAD MADE NO DRAWINGS FROM IMF, EMBASSY ASSUMES "TEMPORARY LOAN" WOULD BE DRAWING OF GOLD TRANCHE.

5. AT SAME TIME, THE KENYAN GOVERNMENT WILL SEEK PROGRAM LOAN, I.E., NOT TIED TO SPECIFIC PROJECTS, FROM IBRD. GOK FEELS THIS LOAN IS NECESSARY SO THAT DEVELOPMENT SPENDING CAN BE MAINTAINED AT PRESENT LEVEL. THIS LOAN WOULD COMPENSATE FOR AN EXPECTED DROP IN BILATERAL FOREIGN AID AND PRIVATE FOREIGN INVESTMENT.
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